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IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 366

McCULLOUGH TOOL COMPANY, ET AL., *Petitioner,*

v.

WELL SURVEYS, INCORPORATED, ET AL., *Respondent.*

PETITION FOR REHEARING FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

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SUBJECT INDEX

	Page
Grounds for Rehearing of Petition for Certiorari ...	2
Revised Question Presented ...	2
Statement of Case ...	2
Reasons for Rehearing ...	9
Conclusion ...	23
Appendix ...	1a

TABLE OF AUTHORITIES CITED

CASES:

Adams Grease Gun Corp. v. Bassick Mfg. Co., 285 U.S. 531 (1932) ... 24
Automatic Radio Co. v. Hazeltine, 339 U.S. 827 ... 18, 21
Berlenbach v. Anderson, 329 F.(2d) 782 (C.A. 9) ... 9
Brulotte v. Thys Company, 379 U.S. 29, 13 L.Ed. 2d. 99, 85 S.Ct. 176 (1964) ... 17
Carbice Corporation of America v. American Patents Development Corporation, et al., 283 U.S. 27 (1931) ... 23, 24
B. B. Chemical Co. v. Ellis, 314 U.S. 495 ... 15, 24
Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456 ... 16, 24
General Electric Co. v. Wabash Appliance Corp., 304 U.S. 364, 58 S.Ct. 899 (1938) ... 21
Holland Furniture Co. v. Perkins Glue Co., 277 U.S. 245, 48 S.Ct. 474 (1925) ... 20
Incandescent Lamp Patent, 159 U.S. 465, 16 S.Ct. 75 (1895) ... 21
Keystone Driller Co. v. General Excavator Co., 289 U.S. 721 (1933) ... 24

Page

Leitch Manufacturing Company v. Barber Company, 302 U.S. 458 (1938) 24
Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 .....15, 24
Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 490; 62 S.Ct. 402, 404; 86 L.Ed. 363 .....9, 13, 15, 24
Motion Picture Patents Company v. Universal Film Manufacturing Company, et al., 243 U.S. 502 (1917) 23
National Lockwasher Co. v. George K. Garrett, Inc., 137 F.(2d) 256 (C.A. 9, 1943) 10
O'Reilly v. Morse, 15 How. 62, 120 (1853) 21
United States v. Univis Lens Company, Inc., et al., 316 U.S. 241, 251-252 (1942) 24
Vulcan Manufacturing Co. v. Maytag Co., 293 U.S. 553 (1935) 24

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Petitioner prays that this Court grant rehearing of its order of March 7, 1966 denying the petition for writ of certiorari, — U.S. —, 15 L.Ed. 2d 851, and that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Tenth Circuit in the above-entitled case as prayed for in the petition filed July 19, 1965 herein.

GROUNDS FOR REHEARING OF PETITION FOR CERTIORARI

This Petition for Rehearing is filed under this Court's Rule 58, paragraph 2, and presents substantial grounds available to Petitioner although not previously presented.

In the original Petition the illegal restraint of competition and control of a licensee's and immunee's* activities outside the WSI patents and conflicts with controlling Supreme Court decisions, were not presented to this Court. There is patent misuse and the use of patents against public policy irrespective of whether or not the case is viewed from the "package licensing" standpoint.

REVISED QUESTION PRESENTED

Is WSI guilty of patent misuse by illegally restraining competition from selling unpatented radioactivity survey tools and exercising illegal control over unpatented tools and over activities outside the WSI patents by requiring its licensees and immunees to pay royalties on every radioactivity well survey irrespective of the tool used and by preventing its licensees and immunees from transferring (selling) ratioactivity survey tools which are not covered by any WSI patent?

STATEMENT OF CASE

In these consolidated cases respondent Well Surveys, Incorporated, at one time, charged petitioner McCullough Tool Company with infringement of eighty-five patents. However, respondent went to trial on five

* WSI issued License Agreements and Immunity Agreements. We use the word "immunee" to refer to the parties to the agreements who received immunity from patent infringement suits.

patents.[1] Two of these patents were held invalid, two of the basic patents expired,[2] and one patent, the Swift patent which claims an assembly of a casing collar locator and logging tool, is still alive. Petitioner raised the defense of patent misuse and the Trial Court and Tenth Circuit held there was misuse to and including June 1, 1956, and that respondent had purged on that date and committed no misuse thereafter.

Petitioner contended and still contends that there was misuse by respondent on and after June 1, 1956 because of the agreements which remained in force after that date and new agreements which were signed.

These agreements illegally restrain competition and exercise illegal monopolistic control over unpatented goods; and there is patent misuse on these grounds.

Of the agreements contained in the Book of Agreements, Ex. 501, Nos. 34 and 48 are selected as typical. Copies of these two agreements are attached hereto as Exhibits A and B.

In the original Petition, petitioner did not analyze these agreements in detail, but will do so here in order to bring the facts of the illegal restrictions squarely to the attention of this Court.

Contract 34, Exhibit A of Appendix, is an Immunity Agreement in which WSI granted immunity from suit for infringement under its radioactivity well survey patents, the immunity extending to well surveying by radioactivity methods and instruments.

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[1] Bender Reissue No. Re. 23,226, Fearon No. 2,308,361, Fearon No. 2,390,433, Swift No. 2,554,844, and Fearon Reissue No. 24,226.

[2] Bender Patent No. Re. 23,226, expired on October 18, 1955. Fearon Patent No. 2,308,361, expired on January 12, 1960.

In Paragraph 1.02[3] "Radioactivity Well Surveying" is broadly defined as including any logging or surveying of bore holes by detecting radioactivity effects.

In Paragraph 1.03[4] the term "Field of Radioactivity Well Surveying" is defined as meaning *all methods and apparatus* used for radioactivity well surveying.

In Paragraph 1.04[5] the term "Radioactivity Survey" is defined as including *any logging and surveying operation* in the field of radioactivity well surveying.

Radioactivity well surveying, therefore, covers any method or any instrument whereby a bore hole may be surveyed by the detection of radioactivity effects.

Paragraph 2.01[6] grants an immunity under WSI patents from claims of suit or liability for infringement.

The immunity, however, is "specifically limited to Radioactivity Well Surveying conducted with instruments *other* than those of W.S.I. design or manufacture." (Par. 2.01). In other words, if the immunee uses an instrument manufactured by WSI or an instrument which incorporates a design of WSI, the immunity does not apply.

Also, the immunity is limited to radioactivity well surveying conducted by the immunee for others for hire. Thus, the immunity is restricted to radioactivity surveys for others for hire, using instruments other than those of WSI design or WSI manufacture.

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[3] See Appendix A, page 1a.

[4] See Appendix A, page 2a.

[5] See Appendix A, page 2a.

[6] See Appendix A, page 2a.

Paragraph 2.02[7] gives the immunee the right to extend to its customer an immunity under radioactivity well survey patents, but restricted to the specific surveys upon which royalty is paid.

Paragraph 2.03[8] acknowledges that the immunee must use an instrument to conduct a radioactivity well survey and, therefore, grants to the immunee the right "to make instruments other than of W.S.I. design for its own use and may be extended by COMPANY [the immunee] to instrument manufacturers but any such extension shall be specifically restricted to such instruments made for and actually used by COMPANY pursuant to the terms and conditions of the Agreement". (Par. 2.03).

This paragraph also provides that the immunity "shall cease to exist if this Agreement is terminated or *if the instrument is transferred to a stranger to this Agreement.*" (Par. 2.03). In conclusion this paragraph states that the immunity does not entitle the immunee to WSI know-how or entitle it to purchase instruments of WSI design. In other words, any instrument which the immunee may make or have made must not incorporate any WSI know-how and must not incorporate a WSI design.

This provision gives WSI full control over any instrument made by or for immunee to conduct *any* radioactivity survey. It controls the design of the instrument by requiring that the instrument must *not* be of WSI design and must *not* include WSI know-how. Thus, it is clear that WSI exercises complete control over instruments outside the WSI patent monopoly.

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[7] See Appendix A, page 3a.

[8] See Appendix A, page 3a.

The control exercised by WSI extends to the *manufacture,* to the *use,* and to the *sale* of unpatented instruments. The immunee, or anyone else, should be free to manufacture, to use, and to sell *any* instrument *not covered* by WSI patents.

WSI will not sell instruments to the immunee under this agreement, and at the same time restricts its buying instruments from anyone else *except* a company to which immunity has been extended under the terms of this agreement.

Immunee, by this paragraph, is restrained from purchasing equipment on the open market and from *using* a non-infringing instrument made by a competitor of WSI.

By the terms of this type of agreement, competition is restrained from manufacturing and selling on the open market radioactivity surveying instruments which are not within the scope of any WSI patents.

Paragraph 3.02[9] requires the immunee to pay a royalty on each well surveyed under the grant of immunity. By virtue of the scope of the definitions the immunee is required to pay a royalty on *every* radioactivity well survey which it conducts; and this holds true even though the equipment or methods do not incorporate WSI patent rights.

The immunity to the immunee is *limited* to the *use* of methods and instruments in conducting well surveys for hire for others. There is no right of sale.

The royalty is not based on a fair percentage of the cost of the instrument. The survey companies have few instruments which are used hundreds or thousands of

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[9] See Appendix A, page 4a.

times, each immunee being required to pay 5% down to 2½% of the gross charge made for *every* survey. This results in royalties which, when accumulated, are a relatively high percentage of the actual cost of the instruments. Furthermore, the percentage is not limited to a reasonable charge for the cost of using *the instrument,* but includes a percentage of the gross service charge, including cost of labor in performing the radioactivity well survey.

Contract No. 48 in the Book of Contracts, Ex. 501, Exhibit B in Appendix B, is a Research Service and License Agreement. The definitions of radioactivity well surveying, field of radioactivity well surveying and radioactivity survey, Paragraphs 1.03, 1.04 and 1.05 are the same as in the Immunity Agreement. This License Agreement refers to present as well as future patents in Paragraphs 1.07 and 1.09, and in Paragraph 1.08 refers to "Schlumberger Patents" under which immunity rights are granted.

The granting clause, Paragraph 2.01 grants a non-exclusive, non-transferable license under present WSI patents and is limited to the practicing of radioactivity well surveying for others for hire. This is the same type of restriction which we find in the Immunity Agreement, namely, it refers to a right to perform well surveys with no right to sell.

This paragraph also grants an immunity under Schlumberger patents.

This license differs from the Immunity Agreement in Sections 2.02 and 2.04 under which licensee is required to grant to WSI "grant-back" licenses under present patents (2.02) and future patents (2.04).

The grant-back license is royalty-free and grants to WSI the right to make and sell apparatus, and Paragraph 2.04 includes the rights to sublicense others.

These grant-back clauses constitute an anti-trust violation per se.[10] This defense of unenforceability based on the grant-back clause, however, is separate from and in addition to petitioner's position that the Immunity and License Agreements of WSI are invalid under the Sherman Anti-Trust Act, Paragraphs 1 and 2.

In Paragraph 4.01 the licensee is given the benefit of WSI research and development, and in Paragraph 4.02 the licensee is given the right to purchase from WSI detecting and recording instruments at a reasonable price.

Paragraph 4.03 is similar to Paragraph 2.03 of the Immunity Agreement in that it extends to the licensee the right to make for its own use, or to have made by a company to which licensee extends the right to make instruments for licensee's own use. The extension of a license to a manufacturer, however, "* * * shall be

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[10] "Three months earlier, while speaking at the annual meeting of the American Bar Associations' Antitrust Section (p. A-1, ATRR No. 214, 8/17/65), Mr. Turner (Assistant Attorney General in charge of antitrust) indicated that his interest in patent transactions goes further than the patent-license price-fixing arrangement under attack in the Huck case. 'We shall also eventually seek to establish, contrary to Trans-Wrap [Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947)], that a clause in a patent license requiring the licensee to grant back to the patentee all future improvement patents should be held unlawful per se for the simple reason it is much more restrictive than necessary to protect the patentee's legitimate interests.' 29 A.B.A. Antitrust Section 187, 188. * * * " (Analysis BNA's Antitrust & Trade Regulation Report, 2-22-66, ATRR No. 241, B-1).

specifically restricted to such instruments made for and actually used by LICENSEE pursuant to the terms and conditions of this Agreement and shall cease to exist if this Agreement is terminated or if the instrument is transferred to a stranger to this Agreement * * *".

Under Paragraph 5.01 licensee is required to pay a 15% royalty, which is later reduced to 7½% royalty, the royalty being payable on all radioactivity well surveys conducted by licensee.

REASONS FOR REHEARING

In granting Judgment for respondents and thus sustaining the validity of the License and Immunity Agreements between WSI and its licensees and immunees, the decisions below are in conflict with a host of decisions condemning the use of patents to illegally restrain competition by exercising control over goods and actions outside the patent monopoly; and are in violation of the Sherman Anti-Trust Law, Sections 1 and 2,[11] and constitute patent misuse.[12]

The respondents here, by definition in their License or Immunity Agreements, and by limitation as to the manufacture, use and transfer of unpatented instruments, are extending their monopoly so as to reach, in practical effect, *any* structure for performing *any* radioactivity well survey, including instruments of competitors as well as new inventions, developments and improvements not yet built and not even conceived.

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[11] See Appendix C, pages 20a and 21a.

[12] There may be patent misuse even though the proofs are insufficient to prove anti-trust violations. *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488, 490; 62 S.Ct. 402, 404; 86 L.Ed. 363. Also *Berlenbach* v. *Anderson*, 329 F.(2d) 782 (C.A. 9).

In *National Lockwasher Co.* v. *George K. Garrett, Inc.*, 137 F.(2d) 256 (C.A. 9, 1943), the sole question with which that Court was concerned was the legality of a patent license agreement which, in the words of the Court:

> "* * * contained a provision to the effect that the licensee agrees, while the agreement is in force, that it will not manufacture any other form of non-tangling spring washers except those covered by the patent in suit. * * *" (p. 256)

That Court, purporting to follow decisions of this Supreme Court, said, in part:

> "We think the instant case, on the facts as the defendant represents them, falls within the principle of the cases cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. *But it is attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition.*" (p. 256)

That Court, on the basis of evidence which apparently consisted of little more than the existence and terms of such license contracts, said:

> "We think this is enough; enough to show that the plaintiff was using its patent to suppress com-

> petition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear." (p. 257)

Accordingly, the judgment of the District Court was reversed and the case remanded with directions to dismiss the complaint.

The License and Immunity Agreements of respondents exercise the same illegal control and suppression of competition with it by non-patented instruments.

The requirement of a royalty payment on the use of all radioactivity survey instruments will effectively foreclose the market to other manufacturers who produce or may produce non-infringing equipment. The royalty burden imposed on a competitor's non-infringing structures in the form of a royalty penalty for each and every use of non-infringing equipment would discourage licensees or immunees from buying or leasing and using a competitive non-infringing structure or a non-competitive tool for radioactivity survey.

In the usual cases involving illegal restraint of goods outside the patent monopoly the licensee manufactures and sells the patented equipment and is restrained from selling any equipment in competition therewith.

In this present case WSI elects to restrain the licensees and immunees from selling equipment and WSI makes its royalty profit *not* on the sale, but grants rights limited to use of equipment and charges a royalty each time a radioactivity survey tool is used. Since the licensee or immunee pays a royalty each time it makes a radioactivity survey it becomes immaterial to WSI's income whether this equipment is or is not within the scope of any WSI patent. The

restraint is not in the refusal to let the licensee or immunee use non-infringing equipment; but is in the placing of a royalty payment on each use of non-infringing equipment which gains revenue for WSI, even though its patented inventions are not used. This control extends beyond the patent monopoly and places a royalty penalty on the use of competitive non-infringing radioactivity survey equipment.

WSI (while refusing to sell, see 2.03 of Exhibit A) licenses the immunee to make for itself or to have made by a person to whom immunity has been granted, radioactivity survey tools (other than WSI design) which the immunee will use in its performance under the Agreement.

This limitation precludes immunees from purchasing of instruments sold *on the open market* by a competitor of WSI.

The building up of costs by the imposition of additional royalties on competitive structures is a serious restraint to competition because customers would not be willing to pay a service charge which includes double royalties (one royalty which the competitive manufacturer would charge and a second royalty which WSI charges on the same use). The compounding of royalties by requiring payments for *each use* of a radioactivity survey instrument would amount to so much over a period of time that an immunee, even if he might desire to, in order to use a competitive tool, would find it economically disastrous to attempt to absorb 5% or even 2½% royalty each time the competitive non-infringing tool is used.

The imposition of double royalties imposes higher costs on the customer because the royalty for each use

is not based on the value of the use of the tool, but also includes royalty payments on the worker's time, as well as any cost involved in the gross charge, except mileage (Immunity Agreement, Exhibit A, Paragraph 3.02).

Obviously, if the immunee did not have to pay the additional royalty on the use of unpatented goods the price of the service to the customer would be lower.

Royalty payments on the use of non-patented instruments is a form of price control. By requiring a licensee or immunee to pay a royalty to respondents in addition to the royalty which must be paid to the competitor for the non-infringing competitive device, the service performed by the competitive device is necessarily priced higher.

The decisions of the Courts below are in conflict with this Court's decision in *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488. In that case respondent brought suit against petitioner for infringement of a machine for depositing salt tablets in tablet form in the contents of cans in the canning industry. The respondent, by agreement, required its licensees to use, with the patented machines, only tablets sold by respondent. Petitioner charged this restriction to violate Paragraph 3 of the Clayton Act, 15 U.S.C. 14. This Supreme Court stated that the question which must be decided is not necessarily whether respondent had violated the Clayton Act, but "* * * whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article." (p. 490)

The Supreme Court expressed the basic principle:

> "* * * A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant, *Interstate Circuit* v. *United States,* 306 U.S. 208, 228, 230; *Ethyl Gasoline Corp.* v. *United States,* 309 U.S. 436, 456, * * *" (p. 491)

> "* * * But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant." (p. 492)

The Lower Courts' decisions are in conflict with the *Morton Salt Co.* case because those Lower Court decisions, in fact, hold that the respondents may control unpatented goods and restrain competition, yet, at the same time, maintain their patents in a Court of equity. The Supreme Court in the *Morton Salt Co.* case emphatically laid down the law that a patentee cannot do this:

> "* * * It is the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent. * * * The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy." (p. 494)

The Trial Court and Tenth Circuit decisions are in conflict with *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661. In that case Mid-Continent was using its patent to control the sale of an unpatented element of a combination claimed in the patent in suit. The Supreme Court in its decision referred to a number of cases including the *Morton Salt Co.*, case, 314 U.S. 488, and *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, commenting that "* * * both direct and contributory infringement suits were disallowed on a showing that the owner of the patent was using it 'as the effective means of restraining competition with its sale of an unpatented article.' * * *" (p. 665), but said "* * * we can see no difference in principle where the unpatented material or device is itself an integral part of the structure embodying the patent." (p. 665)

The Supreme Court in *Mercoid* carefully considered the question of using a patent to control *activities* outside the monopoly of the patent, and we respectfully submit, laid down the broad principle that any such control, regardless of the means employed, constitutes a misuse of the patent monopoly. We quote as follows:

> "The instant case is a graphic illustration of the evils of an expansion of the patent monopoly by private engagements. The patent in question embraces furnace assemblies which neither the patentee nor the licensee makes or vends. The struggle is not over a combination patent and the right to make or vend it. The contest is solely over unpatented wares which go into the patented product. Respondents point out that the royalties under the license are measured by the number of unpatented controls which are sold and that no royalty is paid unless a furnace covered by the patent has been installed. But the fact remains that the competition which is sought to be con-

trolled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls. * * *" (pp. 666-667)

The use which WSI controls is not the use of tools covered by its patents, but the use of *any* radioactivity survey tool:

"* * * The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraing on trade would plainly run afoul of the anti-trust laws. If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant. Such a vast power 'to multiply monopolies' at the will of the patentee (Chief Justice White dissenting in Henry v. A. B. Dick Co., supra, p. 53) would carve out exceptions to the anti-trust laws which Congress has not sanctioned. * * *" (p. 667)

The principle is not only applied to control over patented products, but also applies to the control of a licensee's or immunee's *conduct.* In *Ethyl Gasoline Corp.* v. *United States,* 309 U.S. 436, 456, the Supreme Court stated that a licensor may not:

"* * * condition the license so as to control conduct by the licensee not embraced in the patent monopoly, *Standard Sanitary Mfg. Co.* v. *United States,* 226 U.S. 20; *Interstate Circuit* v. *United States,* 306 U.S. 208, 228-230; * * *"

The Lower Courts' opinions are also in conflict with this Court's opinion in *Walter C. Brulotte, et al.* v.

Thys Company, 379 U.S. 29, 13 L.Ed. 2d. 99, 85 S.Ct. 176 (1964). In that case respondent owned various patents on hop-picking machines and sold a machine to each petitioner for a flat sum and issued a license for its use. Seven of the patents were incorporated in the machines and all seven patents had expired.

After the dates of expiration of the patents, the licensor continued to enforce the license agreement, which license required royalties for use of the machines both before and after expiration of the patents and also the license agreements prevented assignment of the machines or their removal from Yakima County *after,* as well as before, the expiration of the patents.

The Supreme Court found:

> "* * * The present licenses draw no line between the term of the patent and the post-expiration period. The same provisions as respects both use and royalties are applicable to each. The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period. * * *
>
> "In light of those considerations, we conclude that the use by a patentee of royalty agreements that project beyond the expiration date of the patent is unlawful *per se.* If that device were available to patentees, the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there." (p. 102)

Respondents' License and Immunity Agreements draw no distinction between instruments which are within or outside unexpired patents. A royalty for use must be paid on instruments not covered by WSI patents.

The second point of similarity is that the unpatented tools cannot be transferred (sold) to others (except to another licensee or immunee).

Thus it will be seen that respondents' License and Immunity Agreements accomplish exactly the same illegal acts as the license agreements in the *Brulotte* case, namely, to control the use of unpatented structures by requiring royalty payments for their use, and restriction of the sale or transfer of unpatented products.

If we consider the question of restraint from the standpoint of the expiration of the Bender and Fearon patents "* * * the free market visualized for the post-expiration period [of the Bender and Fearon patents] would be subject to monopoly influences that have no proper place * * *" (paraphrasing quotation from *Brulotte* opinion).

It should be noted that in a subnote the Supreme Court distinguishes from *Automatic Radio Co.* v. *Hazeltine,* 339 U.S. 827, stating: "* * * But that aspect of the case is likewise not apposite here for the present licensees are farmers using the machines, not manufacturers buying the right to incorporate patents into their manufactured products." (p. 102)

The licensees and imunees of WSI are well surveyors which *use* radioactivity survey instruments and *are not manufacturers* buying the right to incorporate patents into their manufactured products.

The concluding statement of the Supreme Court in *Brulotte* is also squarely in point:

> "* * * The exaction of royalties for use of a machine after the patent has expired is an assertion

> of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain. We share the views of the Court of Appeals in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496, 510, that after expiration of the last of the patents incorporated in the machines 'the grant of patent monopoly was spent' and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable." (p. 103)

It is believed that this language is equally applicable to the WSI agreements which exercise control by royalty payments for use and restraint of sale or transfer of radioactivity well survey instruments not covered by any WSI patents.

The legal effect of these contractual limitations on the licensee or immunee is to extend the scope of the WSI patents to embrace all radioactivity well survey tools. It does this by disregarding or nullifying the claims of its patents and by substituting its own definition of the illegal monopoly it is imposing on the public. It is as bad as the original monopolies granted by the Crown of England; for example, the exclusive right to sell salt.

As an illustration the Bender Patent No. Re. 23,226, covering method and apparatus for gamma ray logging and the Fearon Patent No. 2,308,361 covering method and apparatus for neutron logging, expired Oct. 18, 1955 and Jan. 12, 1960, respectively. The methods and apparatus covered by those patents have been, since those dates, in public domain (WSI has already received its full seventeen-year monopoly), yet the public is still deprived of its legal right to the uses of these methods and apparatus by WSI's illegal control exer-

cised over the licensees' and immunees' activities in radioactivity well survey and the transfer (sale) of unpatented radioactivity well survey tools.

The definitions under which royalties are paid require a royalty every time a radioactivity well survey tool is used. Therefore, by means of an agreement tied to WSI's patent grants, WSI is exercising the same power of control as it would have if it had a patent which described the survey apparatus solely in terms of the operations performed by that apparatus.

The attempt broadly to claim a patent on the operation performed by an invention is invalid, for it runs counter to the well-established doctrine that a patent may not be granted on a function. The rationale of the cases denying the validity of a patent on a function shows their relevance to the situation under consideration. In *Holland Furniture Co.* v. *Perkins Glue Co.*, 277 U.S. 245, 48 S. Ct. 474 (1925), the Court said (p. 257):

> "* * * A claim so broad, if allowed, would operate to enable the inventor who has discovered that a defined type of starch answers the required purpose to exclude others from all other types of starch and so foreclose efforts to discover other and better types. The patent monopoly would thus be extended beyond the discovery and would discourage rather than promote invention. *Re Incandescent Lamp Patent, supra,* 476. That the patentee may not by claiming a patent on the result or function of a machine extend his patent to devices or mechanisms not described in the patent is well understood. * * *"

WSI is undertaking to extend the monopoly embraced in its patent so as to reach in practical effect all of the functions performed by the patented device

(viz., the functions of performing surveying a well by detecting neutral or charged particles or electromagnetic radiations along a borehole). If WSI is successful it will in substance have been able to protect a claim broader than that on which a patent could be issued by the Patent Office. *Incandescent Lamp Patent,* 159 U.S. 465, 16 S. Ct. 75 (1895); *O'Reilly* v. *Morse,* 15 How. 62, 120 (1853); *General Electric Co.* v. *Wabash Appliance Corp.,* 304 U.S. 364, 58 S. Ct. 899 (1938).

The Tenth Circuit erred in following the *Automatic Radio Mfg. Co.* v. *Hazeltine Research* case, 339 U.S. 827. The facts of that case are very different from the facts of the present case. In *Hazeltine* the suit was between a licensor and licensee under a license agreement to collect unpaid royalties. The licensor is a research organization and the licensee is a *manufacturer* of raidos. Under the license, the licensee paid a *nominal* 1% royalty based on the selling price of all products it manufactured. The licensee paid a single royalty on each device manufactured in exchange for the right to incorporate in its products any one or more of the patents and applications owned by licensor. The royalty provision of the license agreement was sustained on the theory that it was a convenient mode of operation designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodied any of the Hazeltine patents.

Under the facts of the case the Supreme Court held that the parties had selected a reasonable way of collecting royalties and "* * * it is not *per se* a misuse of patents to measure the consideration by a percentage of the licensee's *sales.*" (p. 834)

In our present case, however, the licensees and immunees of WSI are well surveyors who use radioactivity survey instruments on survey jobs for customers. They do not sell the equipment, they only use it. They are not manufacturers paying for the privilege of using any one or more of the WSI patents in instruments of their manufacture.

This was one ground in which the Supreme Court distinguished *Brulotte* from *Hazeltine*. In subnote 5 on page 102, the Supreme Court said:

> "5. The petition for certiorari did not in the questions presented raise the question of the effect of the expiration of any of the patents on the royalty agreement. Also, the Hazeltine license, which covered many patents, exacted royalties for patents never used. But that aspect of the case is likewise not apposite here for the present licensees are farmers using the machines, not manufacturers buying the right to incorporate patents into their manufactured products."

Where the licensee in *Hazeltine* paid a single royalty on each device manufactured, WSI licensees and immunees are required to pay a royalty each time a radioactivity survey tool is used. Thus, they are paying royalties hundreds of times on each single tool (and this, of course, is irrespective of whether the tool comes within any of the WSI patents).

In our present case there is no problem as to accounting. Where the licensee of *Hazeltine* made thousands of radios the licensee or immunee of WSI uses but a few tools, but they use the tools over and over again. It would be a simple matter to have an inspection of the two or three tools which the licensee or immunee intended to use and to once and for all make a

determination of whether or not the tools came within the scope of any WSI patents.

Thereafter, the user would then make an accounting for each use of each tool which had been determined to come within the WSI patents. Each tool would be given a serial number or identification and it, therefore, would be a very simple matter to make monthly accountings on the royalties due.

In the *Hazeltine* case there was no restraint on the sale of any product whether patented or not. In our present case, WSI restrains the licensees and immunees from transferring (selling) the radioactivity instruments to anyone other than a licensee or immunee of WSI.

It is respectfully submitted that the facts are so different that *Hazeltine* cannot be controlling as to the law of our present case. In fact, in *Brulotte* the Supreme Court has already so held. If *Hazeltine* should be a case which stands in the way of preventing WSI's violation of the anti-trust laws and restraint of competition, then we believe it is time to review the *Hazeltine* case and either overrule it or limit it so that it will not serve as a means for enabling patent misuse and restraint of trade.

CONCLUSION

Clearly, the *rationale* of many prior decisions of this Court is that a patentee may not use the leverage of his patent to restrain trade in products not covered thereby. *Motion Picture Patents Company* v. *Universal Film Manufacturing Company, et al.*, 243 U.S. 502 (1917); *Carbice Corporation of America* v. *American Patents Development Corporation, et al.*, 283 U.S.

27 (1931); *Leitch Manufacturing Company* v. *Barber Company*, 302 U.S. 458 (1938); *Morton Salt Company* v. *G. S. Suppiger Company*, 314 U.S. 488 (1942); *B. B. Chemical Company* v. *Ellis, et al.*, 314 U.S. 495 (1942); *Mercoid Corporation* v. *Mid-Continent Investment Company, et al.*, 320 U.S. 661 (1944). This principle is applicable not only to the enlargement of the patent monopoly for the exploitation of an unpatented article, but is equally applicable to the enlargement for the exploitation of the monopoly of another patent. *Ethyl Gasoline Corporation, et al.* v. *United States*, 309 U.S. 436, 459 (1940). And "the method by which the monoply is sought to be extended is immaterial," *Mercoid Corporation* v. *Mid-Continent Investment Company, et al.*, 320 U.S. 661, 666 (1944). Accord: *United States* v. *Univis Lens Company, Inc., et al.*, 316 U.S. 241, 251-252 (1942).

This Court has granted certiorari to review decisions involving novel and important questions concerning the application of the doctrine of unclean hands and restraint of trade in patent cases, and involving important questions relating to the validity under the anti-trust laws of conditions in patent license agreements which may step outside the bounds of the patent monopoly. *Keystone Driller Co.* v. *General Excavator Co.*, 289 U.S. 721 (1933), *Adams Grease Gun Corp.* v. *Bassick Mfg. Co.*, 285 U.S. 531 (1932), *Vulcan Manufacturing Co.* v. *Maytag Co.*, 293 U.S. 553 (1935).

The Supreme Court by its decisions has laid down the law and guidelines on most of the devices employed by patentees to extend their patent monopolies to unpatented goods and activities; however, there appears to be this one gap which should be plugged. The type

of licenses and immunity agreements employed by WSI have been deftly planned and worded to enable WSI to illegally prevent competition from selling or leasing unpatented tools in competition with WSI, to enable WSI to collect royalties on all radioactivity well surveys, even those performed by radioactivity tools outside the scope of the WSI patents, and to enable WSI to restrain its licensees and immunees from transferring to third parties any radioactivity survey tools including those outside the scope of WSI patents.

Petitioner respectfully submits that the doctrine of the *Morton Salt* case, the *Mercoid* case, the *National Lockwasher* case, and the *Brulotte* case, does make the WSI License and Immunity Agreements illegal and a misuse of their patents; however, there is a dire need for the Supreme Court to further define the scope of these important misuse cases and related cases so that Trial and Appellate Courts, the members of the Bar, and the public will have definite and exact instructions with respect to the type of agreement involved in the present Petition.

The type of patent license and immunity agreements involved in this present litigation implements and enables an abuse of the patent monopoly which is just as serious and just as far reaching as in the *Morton Salt* case, the *Mercoid* case, the *National Lockwasher* case, the *Brulotte* case, or many of the other cases reviewed by this Court. It seems safe to say that this type of patent misuse will continue, misuse defenses in infringement litigation will continue to be urged, until this Court makes an announcement of the law

with respect to this type of agreement and this type of misuse.

Respectfully submitted,

EDWARD S. IRONS,
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

R. WELTON WHANN,
315 West Ninth Street,
Los Angeles, Calif. 90015

Attorneys for Petitioner

CERTIFICATE OF COUNSEL

I hereby certify that the foregoing petition for rehearing is presented in good faith and not for delay and is restricted to grounds specified in Rule 58 of the rules of this Court.

Respectfully submitted,

EDWARD S. IRONS
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

Attorney for Petitioner

EXHIBIT A

APPENDIX A

Immunity Agreement

THIS AGREEMENT effective as of the 1st day of July, 1953, is made by and between WELL SURVEYS, INCORPORATED, of Tulsa, Oklahoma a corporation of Delaware, hereinafter called "W.S.I.", and DOWELL, INCORPORATED, of Tulsa, Oklahoma, a corporation of Delaware, hereinafter called "Company"

I. RECITALS AND DEFINITIONS.

1.01 W. S. I. is possessed of certain patents and rights with respect to patents in the Field of Radioactivity Well Surveying and Company desires the right to conduct Radioactivity Well Surveying operations for hire with immunity from liability for infringement of Radioactivity Well Surveying ("R.W.S.") Patents as hereinafter defined.

1.02 The term "Radioactivity Well Surveying" as used herein shall mean logging or surveying bore holes by detecting along a bore hole neutral particles, or charged particles, or electromagnetic radiations, coming either from the nucleus or from the outer particles of the atom, or any other radioactive effects or radioactive radiations or combinations thereof emanating from the material within or traversed by the bore hole, whether these emanations represent a natural condition or result from irradiating the formation with either neutral particles or charged particles or electromagnetic radiations or any combination of them, or are the result of a treatment of the formation or the bore hole capable of giving rise to such emanations, and the utilization of these received radiations or particles to derive information concerning the nature or contents of the formation or the bore hole. The term "electromagnetic radiations" as used herein shall mean radiations having frequencies greater than that of ultraviolet light.

1.03 The term "Field of Radioactivity Well Surveying" as used herein shall mean all methods and apparatus used for Radioactivity Well Surveying.

1.04 The term "Radioactivity Survey" as used herein shall mean and include any logging and surveying operation in the Field of Radioactivity Well Surveying.

1.05 The term "R.W.S. Patents" as used herein shall mean (a) any and all United States patents owned by W.S.I. and (b) any and all United States patents owned by Lane-Wells Company, (a Delaware corporation) which patents have statutory terms expiring on or before December 31, 1967, and, which during the term of this Agreement, would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying.

1.06 The term "Radioactivity Tracer Logging Service" shall mean either of the following: (a) a well logging service in which a radioactive tracer material is introduced into a single well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are subsequently conducted in said well to obtain information regarding the effect of said tracer material; or (b) a well logging service wherein a radioactive tracer material is introduced into a control well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are conducted in one or more adjacent wells for the purpose of obtaining information regarding transmission of said tracer material from said control well to said adjacent wells.

II. Grants.

2.01 W.S.I., warranting that it has the right to do so, hereby grants to Company upon the terms and conditions hereinafter stated, a non-exclusive, non-transferable (except as hereinafter specified) immunity from any claim,

suit or liability for infringement of R.W.S. Patents arising from Radioactivity Well Surveying conducted by Company during the term of this Agreement. This immunity is specifically limited to Radioactivity Well Surveying conducted with instruments other than those of W.S.I. design or manufacture. It is also specifically restricted to Radioactivity Well Surveying conducted by Company for others for hire, provided, however, that experimentation by Company in the Field of Radioactivity Well Surveying of a purely research or development nature without consideration of any kind flowing to Company from another shall not violate this restriction or give rise to a claim for royalty.

2.02 Company shall have the right to extend to each of its customers with each Radioactivity Well Surveying operation conducted by Company an immunity under R.W.S. Patents, such immunity being specifically restricted to the specific survey upon which royalty is paid under the provisions of Section 3.02.

2.03 Since the Radioactivity Well Surveying described in Section 2.01 requires the use of instruments the immunity therein granted shall include the "right in Company to make instruments other than of W.S.I. design for its own use and may be extended by Company to instrument manufacturers but any such extension shall be specifically restricted to such instruments made for and actually used by Company pursuant to the terms and conditions of the Agreement and shall cease to exist if this Agreement is terminated or if the instrument is transferred to a stranger to this Agreement" except in the event such transferee has a similar Agreement with W.S.I. in which event the instrument shall be considered as having been made for such transferee. This immunity does not entitle Company to W.S.I. "know-how" nor does it entitle Company to purchase instruments of W.S.I. design.

2.04 W.S.I. hereby grants to Company a non-exclusive, non-transferable release from any claim, suit or liability

for infringement of R.W.S. Patents arising out of acts which occurred prior to the date of this Agreement.

III. PAYMENTS.

3.01 Company agrees to pay W.S.I. cash consideration in the sum of Twenty-Five Hundred ($2,500.00) Dollars upon execution and delivery of this Agreement.

3.02 Company agrees to pay W.S.I. as royalty on each well surveyed under the grant of immunity set forth in Section 2.01 an amount equal to five (5%) percent of the gross charge (exclusive of mileage) made for the survey so conducted, provided that until such time as fifty (50%) percent of the total royalty payable under this Agreement at the rate of five (5%) percent shall equal the sum of Twenty-Five Hundred ($2,500.00) Dollars, Company shall actually pay W.S.I. an amount equal to two and one-half (2½%) percent of said gross charge.

3.03 In the event that a service involving Radioactivity Well Surveying is one of a combination of several different services conducted by Company for the same customer on the same setup, at the same well, and for a single price which is different from the total of the individual charges customarily made by Company for such services if performed separately, the "gross charge" for determining the royalty payable on such service involving Radioactivity Well Surveying shall be that proportion of the single price charged for said combined service which the individual charge customarily made by Company for the particular service involving Radioactivity Well Surveying bears to the total of the individual charges made by Company for each of such services if performed separately. For the purposes of this Section 3.03, a Radioactivity Tracer Logging Service shall be construed as "on the same setup" and "at the same well" even though successive setups or a plurality of wells are actually employed in rendering such a service.

3.04 On or before the 20th day of each month Company shall furnish W.S.I. with a report in writing setting forth the following information pertaining to each well survey performed under the grant of immunity set forth in Section 2.01 during the preceding calendar month:

(a) Customer;

(b) Invoice number;

(c) Date of invoice;

(d) Name of state in which well is located;

(e) Amount on which royalty is payable;

and a summary including:

(f) Total for all well surveys, of amounts specified in Item (e) above;

(g) Total royalties payable (Item (f) multiplied by royalty rate).

Each statement shall be accompanied with payment for the full amount of the total royalty payable for the month in question. In the event that exceptions are made to regular rate charges, the exceptions shall be noted in the report and the reasons given therefor.

3.05 Company shall fix charges for surveying operations conducted hereunder in its sole discretion and agrees that they shall be commensurate with the cost and value of said operations, it being the intention of the parties that each survey performed hereunder shall be priced on its own merit and not purposely priced lower than necessary for the purpose of attracting other business.

3.06 Company shall keep records adequate to compute the royalties and verify the reports and payments made pursuant to Section 3.04 and W.S.I. shall have access during regular business hours to Company's records to the extent and only to the extent necessary to verify said reports and payments.

IV. TERMINATION.

4.01 If Company shall neglect or fail to render reports and make payments as and when due hereunder or shall otherwise be in default of any obligation under this Agreement, under the License Extension Agreement in writing dated July 1, 1953, between the parties hereto or under any Agreement between the parties hereto relating to the Field of Radioactivity Well Surveying, W.S.I. shall have the right to give written notice thereof to Company and if, within sixty (60) days from and after the date of such notice Company shall not have cured such default, then W.S.I. may, at its option, cause this Agreement to terminate forthwith by giving written notice to that effect to Company.

4.02 Company may terminate this Agreement as of the fifth anniversary date hereof or as of any successive anniversary date thereafter by giving W.S.I. written notice of cancellation at least sixty (60) days prior to the anniversary date on which cancellation is to take effect.

4.03 Unless otherwise terminated pursuant to the provisions hereof, this Agreement shall continue in full force and effect until December 31, 1967, or until the expiration date of the last patent to expire under which Company is granted immunity by this Agreement, whichever date first occurs.

4.04 Termination of this Agreement shall not affect the obligations of Company to make any payments which shall have accrued up to the date of such termination, and the fact that W.S.I. shall not have terminated this Agreement pursuant to Section 4.01 because of one or more defaults by Company shall not prejudice the right of W.S.I. to effect termination for a subsequent default.

V. MISCELLANEOUS.

5.01 This Agreement may be assigned by Company to a successor of its entire Radioactivity Well Surveying busi-

ness which successor shall subscribe to the terms and conditions hereof, but shall not be otherwise assignable by Company without the written consent of W.S.I.

5.02 The addresses of the parties hereto, for the purpose of notices, payments and other communication provided for herein, shall be as follows:

WELL SURVEYS, INCORPORATED
P. O. Box 2656
Tulsa, Oklahoma

DOWELL, INCORPORATED
P. O. Box 536
Tulsa, Oklahoma

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their proper officers duly authorized and their corporate seals to be affixed as of the date first named herein.

WELL SURVEYS, INCORPORATED

By CHAS. E. DULLER
President

ATTEST:

ROBERT K. SCHUMACHER
Secretary

DOWELL, INCORPORATED

By JOHN G. STAUDT
Exec. Vice President

ATTEST:

CALVIN A. CAMPBELL
Secretary

EXHIBIT B

APPENDIX B

Research-Service and License Agreement

THIS AGREEMENT is made this 1st day of April, 1957, by and between WELL SURVEYS, INCORPORATED, of Tulsa Oklahoma, a corporation of Delaware, hereinafter called "W.S.I.", and WIRELINE, INC., of Williston, North Dakota, a corporation of Delaware, hereinafter called "LICENSEE".

I. RECITALS AND DEFINITIONS.

1.01 W.S.I. is a research organization working in the Field of Radioactivity Well Surveying which has developed and proven commercially certain methods and apparatus for surveying wells and which is conducting continued research in said field looking toward new developments and improvements in said field.

1.02 Licensee desires to obtain the benefit of W.S.I. research as embodied in Radioactivity Well Surveying methods and apparatus and a license under W.S.I. Patents to conduct Radioactivity Well Surveying operations for hire, and Licensee further desires that W.S.I. shall undertake to provide Licensee the opportunity to obtain such apparatus of W.S.I.'s design.

1.03 The term "Radioactivity Well Surveying" as used herein shall mean logging or surveying bore holes by the detection along a bore hole of neutral particles, charged particles or electromagnetic radiations coming either from the nucleus or from the outer particles of the atom or any other radioactive effects or radioactive radiations or combinations thereof emanating from the material within or traversed by the bore hole, whether these emanations represent a natural condition or result from irradiating the formation with neutral particles, charged particles or electromagnetic radiations or any combination of them or are the result of a treatment of the formation or the bore hole

capable of giving rise to such emanations, and by the utilization of these received radiations or particles to derive information concerning the nature or contents of the formation or the bore hole. The term "electromagnetic radiations" as used herein shall mean radiations having frequencies greater than that of ultraviolet light.

1.04 The term "Field of Radioactivity Well Surveying" as used herein shall mean all methods and apparatus used for Radioactivity Well Surveying.

1.05 The term "Radioactivity Survey" as used herein shall mean and include any logging and surveying operation in the Field of Radioactivity Well Surveying.

1.06 The term "Radioactivity Tracer Logging Service" shall mean either of the following: (a) a well logging service in which a radioactive tracer material is introduced into a single well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are subsequently conducted in said well to obtain information regarding the effect of said tracer material; or (b) a well logging service wherein a radioactive tracer material is introduced into a control well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are conducted in one or more adjacent wells for the purpose of obtaining information regarding transmission of said tracer material from said control well to said adjacent wells.

1.07 The term "Present Patents" as used herein shall mean United States patents owned or controlled by the granting party in the sense of having the right to grant licenses thereunder without accounting to others, which patents are based on inventions made on or before the date upon which the first instrument for use under this Agreement is delivered to Licensee and, if unlicensed, would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying.

1.08 The term "Schlumberger Patents" as used herein shall mean United States patents now or hereafter owned by Schlumberger Well Surveying Corporation to the extent that such patents claim inventions disclosed in applications filed in the United States Patent Office on or prior to January 1, 1951, and to the extent that such patents, if unlicensed, would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying.

1.09 The term "Future Patents" as used herein shall mean United States patents other than Present Patents owned or controlled by the granting party in the sense of having the right to grant licenses thereunder without accounting to others which patents are based on inventions made prior to the Cut-Off Date and, if unlicensed, would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying.

1.10 The term "Cut-Off Date" as herein used shall mean the termination date of this Agreement unless the Licensee, pursuant to the provisions of Article III, specifies a different date, in which event it shall mean the date so specified by Licensee.

II. GRANTS.

2.01 W.S.I. hereby grants to Licensee non-exclusively and non-transferably (except as hereinafter specified):

(a) a license under Present Patents of W.S.I. to practice Radioactivity Well Surveying for others for hire; and

(b) an immunity from any claim, suit or liability for infringement of Schlumberger Patents arising from Radioactivity Well Surveying for others for hire in bore holes which have been drilled or used in connection with the search for or the ultimate production of oil or gas.

2.02* Licensee hereby grants to W.S.I., for Radioactivity Well Surveying and for making, having made and selling apparatus therefor and for experimentation of a purely research or development nature in the Field of Radioactivity Well Surveying, a non-exclusive, fully-paid license and right to sub-license others under the Present Patents of Licensee.

2.03 W.S.I. hereby grants to Licensee under the Future Patents of W.S.I. a non-exclusive, non-transferable (except as hereinafter specified) license to practice Radioactivity Well Surveying for others for hire and agrees to keep Licensee currently informed with respect to developments forming the basis for Future Patents, provided, however, that W.S.I. may, in keeping Licensee informed as aforesaid, exercise reasonable precautions against the disclosure of any invention which would be premature with respect to the status of the development or the status of any application for patent thereon.

2.04 Licensee hereby grants to W.S.I., for Radioactivity Well Surveying and for making, having made and selling apparatus therefor and for experimentation of a purely research or development nature in the Field of Radioactivity Well Surveying, a non-exclusive, fully-paid license under the Future Patents of Licensee together with the non-exclusive, fully-paid right to extend sub-licenses under the Future Patents of Licensee, for Radioactivity Well Surveying only, to other W.S.I. licensees who shall grant to W.S.I. a similar sub-licensing right inuring to the benefit of Licensee, provided that W.S.I. shall not have the right to extend to another W.S.I. licensee a license under

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* NOTE: If a prospective LICENSEE believes it has Present Patents of significant value which would be affected by the grant in Section 2.02 and so advises W.S.I., then this provision of the form shall become the subject of negotiation looking toward its elimination or an agreement between W.S.I. and the prospective LICENSEE upon some further consideration to support this grant.

Licensee's Future Patents which are based on inventions made subsequent to the Cut-Off Date in the Agreement between W.S.I. and such other licensee.

2.05 Experimentation conducted by Licensee, in the Field of Radioactivity Well Surveying, which is of a purely research or development nature and for which Licensee receives no consideration from a stranger to this Agreement shall be considered licensed hereunder and shall not give rise to a claim for additional royalty.

III. Modification of Cut-Off Date.

3.01 Upon execution and delivery of this Agreement or at any time thereafter Licensee may notify W.S.I. in writing that the Cut-Off Date shall be either

(a) the date upon which the first instrument for use under this Agreement is delivered to Licensee by W.S.I. or a W.S.I. licensed manufacturer, provided such delivery has not been made priod to the notice, or

(b) any other date subsequent to that specified in (a), at least six (6) months subsequent to the date of the notice and prior to the termination date of this Agreement.

3.02 The Cut-Off Date may be extended successively by Licensee pursuant to the provisions of Section 3.01, provided that notice of such extension is given to W.S.I. prior to the Cut-off Date specified in the next preceding notice, and may not be further extended by an ynotice given subsequent to the Cut-Off Date specified in the next preceding notice.

IV. Research, Equipment and Service.

4.01 W.S.I. intends to continue its active program of research and development work in the Field of Radioactivity Well Surveying. During the term of this Agreement and

subject to the provisions of Section 2.03, W.S.I. shall afford Licensee the benefits of such research and development work.

4.02 W.S.I. shall exercise its best efforts to maintain a source from which Licensee can procure at a reasonable price detecting and recording instruments of good quality incorporating results of W.S.I. research and development work for use under this Agreement. W.S.I. shall similarly cooperate with Licensee relative to repairs and replacements for said instruments.

4.03 Since the Radioactivity Well Surveying described in Sections 2.01 and 2.03 requires the use of instruments, the licenses therein granted shall include the right in Licensee to make instruments for its own use and such right may be extended by Licensee to instrument manufacturers, but any such extension shall be specifically restricted to such instruments made for and actually used by Licensee pursuant to the terms and conditions of this Agreement and shall cease to exist if this Agreement is terminated or if the instrument is transferred to a stranger to this Agreement except in the event such transferee has a license under W.S.I. patents to use such instrument, in which event the instrument shall be considered as having been made for such transferee. Nothing herein contained shall be construed as requiring W.S.I. to give any aid or assistance to Licensee in the manufacture of instruments or equipment by Licensee or its agents for use hereunder.

V. PAYMENTS.

5.01 Licensee agrees to pay W.S.I. cash consideration in the sum of Five Thousand Dollars ($5,000.00) Dollars upon execution and delivery of this Agreement.

5.02 Licensee agrees to pay W.S.I. as royalty on each well surveyed under this license granted by W.S.I. herein an amount equal to fifteen (15%) percent of the gross

charge (exclusive of mileage) made for the surveys so conducted, provided that, until such time as fifty (50%) percent of the total royalty payable under this Agreement at the rate of fifteen (15%) percent shall equal the sum specified in Section 5.01, Licensee shall actually pay W.S.I. an amount equal to seven and one-half (7½%) percent of said gross charge.

5.03 In the event that a service involving Radioactivity Well Surveying is one of a combination of several different services conducted by Licensee for the same customer on the same setup, at the same well and for a single price which is different from the total of the individual charges customarily made by Licensee for such services if performed separately, the "gross charge" for determining the royalty payable on such service involving Radioactivity Well Surveying shall be that proportion of the single price charged for said combined service which the individual charge customarily made by Licensee for the particular service involving Radioactivity Well Surveying is of the total of the individual charges made by Licensee for each of such services if performed separately. For the purposes of this Section 5.03, a Radioactivity Tracer Logging Service shall be construed as "on the same setup" and "at the same well" even though successive setups or a plurality of wells are actually employed in rendering such a service.

5.04 On or before the 20th day of each month Licensee shall furnish W.S.I. with a report in writing setting forth the following information pertaining to each well survey performed under this license during the preceding calendar month:

(a) Customer;

(b) Invoice number;

(c) Date of invoice;

(d) Amount on which royalty is payable;

and a summary including:

(e) Total, for all well surveys, of amounts specified in Item (d) above;

(f) Total royalty payable (Item (e) multiplied by royalty rate).

Each statement shall be accompanied with payment for the full amount of the total royalty payable for the month in question.

5.05 Licensee shall fix charges for Radioactivity Surveys conducted hereunder in its sole discretion but agrees that royalty payable hereunder shall not be less than would be payable provided such charges were commensurate with the cost and value of said Radioactivity Surveys.

5.06 Licensee shall keep records adequate to verify the reports and payments made pursuant to Section 5.04, and W.S.I. shall have access once annually during regular business hours to Licensee's records to the extent and only to the extent necessary to verify said reports and payments.

5.07 If at any time during the term of this Agreement W.S.I. shall enter an agreement with any other party granting the same license rights under the Present Patents of W.S.I. and the same benefits of W.S.I. research and development work as are herein granted and afforded to Licensee at a royalty rate lower than the rate provided in this Agreement, then and in such event W.S.I. shall make such lower royalty rate available to Licensee for the purpose of computing all royalty payments from Licensee to W.S.I. which may fall due under this Agreement subsequent to the effective date of such agreement with such other party; provided, however, that if such license is granted to another party for whose Radioactivity Surveys W.S.I. is not obligated to pay to Schlumberger Well Surveying Corporation any or as much royalty as for the Radioactivity Surveys of Licensee, W.S.I. shall not be

deemed to have violated this provision by granting to such other party a license at a royalty rate which is lower than that provided in the Agreement by the difference in the royalty rates required to be paid by W.S.I. for the Radioactivity Surveys of Licensee and such other party; provided further that W.S.I. may assign a fair value to patent rights on then-existing inventions or to other considerations of real value received from such other party without being deemed to have violated this provision; and provided further that, if the agreement with such other party contains one or more reasonably applicable provisions which would be less favorable to Licensee, the availability of such lower royalty rate to Licensee shall be contingent upon Licensee's acceptance of such less favorable provisions.

VI. TERMINATION AND SUIT.

6.01 Licensee shall promptly notify W.S.I. of any suit brought against Licensee for patent infringement in the Field of Radioactivity Well Surveying. W.S.I. shall have the right and obligation to defend at its own expense in Licensee's behalf any such suit insofar as said suit is a bona fide suit for patent infringement by use of apparatus acquired from or through W.S.I. or manufactured in accordance with approved W.S.I. design and such apparatus cannot be used in Radioactivity Well Surveying without involving the allegedly infringing use. W.S.I. shall have sole charge and direction of such suit in Licensee's behalf. Licensee shall have the right to be represented by advisory counsel at its sole option and at its own expense.

6.02 In the event that suit for patent infringement is brought against Licensee which W.S.I. is obliged to defend under Section 6.01 hereof, W.S.I. shall have the right to elect in writing to hold Licensee harmless from any judgment or expense arising from said suit insofar as applicable to use of apparatus acquired from or through W.S.I.

If W.S.I. fails to make such election within sixty (60) days of receipt of written notice of said suit from Licensee, Licensee shall have the right to terminate this Agreement within sixty (60) days thereafter, provided that W.S.I. has then not yet made such election and provided further that Licensee shall have promptly notified W.S.I. in writing of any such suit, and shall not have settled any such suit without first having obtained W.S.I.'s consent in writing. If Licensee shall fail to exercise its right of termination within said period, it shall have waived its right of termination for the particular suit brought.

6.03 Upon W.S.I.'s election to hold Licensee harmless, W.S.I. shall, at its option, have the sole right to compromise or settle such suit, and Licensee shall render such reasonable assistance as W.S.I. may request in the defense of such suit. W.S.I. shall have fulfilled its obligation to hold Licensee harmless if W.S.I. has or acquires rights which would avoid the cause of action for such infringement and offers such rights to Licensee without additional cost.

6.04 If Licensee shall neglect or fail to render reports and make payments as and when due hereunder or shall otherwise be in default of any obligation under this Agreement or under any other Agreement between the parties hereto relating to the Field of Radioactivity Well Surveying, W.S.I. shall have the right to give written notice thereof to Licensee, and if within sixty (60) days from and after the date of such notice Licensee shall not have cured such default, then W.S.I. may, at its option, cause this Agreement to terminate forthwith by giving written notice to that effect to Licensee.

6.05 Licensee may terminate this Agreement as of the fifth anniversay date hereof or as of any successive anniversary date thereafter by giving W.S.I. written notice of cancellation at least sixty (60) days prior to the anniversary date on which cancellation is to take effect.

6.06 Unless otherwise terminated pursuant to the provisions hereof this Agreement shall continue in full force and effect until the expiration date of the last W.S.I. patent to expire under which Licensee is licensed hereunder.

6.07 Termination of this Agreement shall not affect the obligations of Licensee to make any payments which shall have accrued up to the date of such termination, and the fact that W.S.I. shall not have terminated this Agreement pursuant to Section 6.04 because of one or more defaults by Licensee shall not prejudice the right of W.S.I. to effect termination for a subsequent default.

6.08. It is recognized that, in event of termination of this Agreement, Licensee may desire to use or sell Radioactivity Well Surveying apparatus previously acquired from W.S.I. or others, and that a further license under W.S.I. patents will then be necessary for such use by Licensee or its vendees of such apparatus as would, if unlicensed, infringe W.S.I. patents; therefore, W.S.I. agrees that in the event the use of said apparatus by Licensee or its vendees shall infringe any one or more W.S.I. patents, it will, following termination of this Agreement, grant upon reasonable terms to Licensee and/or any vendee of such apparatus, a license under W.S.I. patents, licensed under this Agreement at the time of termination, to use such previously acquired apparatus, it being the intention of this provision to give Licensee the right to continue to use and to transfer to a vendee the right to use said apparatus on a reasonable royalty basis as long as any of said W.S.I. patents applicable thereto would be infringed by such use.

VII. Miscellaneous.

7.01. Licensee shall not be estopped to contest the validity of any patent included in Present Patents and Future Patents of W.S.I.

7.02 This Agreement may be assigned by Licensee to a successor of its entire Radioactivity Well Surveying business which successor shall subscribe to the terms and conditions hereof but shall not be otherwise assignable by Licensee without the written consent of W.S.I.

7.03 The addresses of the parties hereto, for the purpose of notices, payments and other communication provided for herein, shall be as follows:

WELL SURVEYS, INCORPORATED
P. O. Box 2656
Tulsa, Oklahoma

WIRELINE, INC.
Box 205
Williston, N. D.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their proper officers duly authorized and their corporate seals to be affixed as of the date first named herein.

WELL SURVEYS, INCORPORATED

By JOHN H. BUCK
Vice President

(SEAL)

Attest:

ROBERT K. SCHUMACHER
Asst. Secretary

WIRELINE, INC.

By L. C. THAXTON
President

Attest:

Signature Illegible
Secretary

EXHIBIT C
APPENDIX C

SECTION 1.

"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: [*Provided,* That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45, as amended and supplemented, of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other.] Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

SECTION 2.

"Every person who shall monopolize, or attempt to monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."